



**Sekhukhune District Municipality
Annual Financial Statements
for the year ended 30 June 2020**

Sekhukhune District Municipality

(Registration number DC 47)

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 11 of 1998) read with section 155(1) of the Constitution of the Republic of South Africa (Act 108 of 1996)

Nature of business and principal activities

The provision of services (water and sanitation) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Mayoral committee

Executive Mayor

Cllr Ramaila KS
Cllr Manamela MM (Council Speaker)
Cllr Lepota TJ (Chief Whip)
Cllr Sihlangu TL
Cllr Mahlangu MF
Cllr Nchabeleng TL
Cllr Matlala MA
Cllr Manganeng ML

Councillors

Cllr Mnisi SP
Cllr Makola MY
Cllr Nkosi SM
Cllr Mafefe OH
Cllr Mamekoa RS
Cllr Sefala KRE
Cllr Mhlanga CT
Cllr Maila SM
Cllr Matsetela ML
Cllr Mohlala MC
Cllr Moimane MT
Cllr Mtsweni BW

Grading of local authority

Grade 4 Municipality

Chief Finance Officer (CFO)

Mr MJ Mofokeng
Mr AC Mufamadi- Acting

Accounting Officer

Ms MJ Ntshudisane

Registered office

03 West Street
Groblersdal
0470

Postal address

Private Bag X8611
Groblersdal
0470

Bankers

Standard Bank

Auditors

Auditor General (SA)
Chartered Accountants (S.A.)
Registered Auditors

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| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| DORA | Division of Revenue Act |
| MTREF | Mid Term Revenue and Expenditure Framework |
| WSIG | Water Services Infrastructure Grant |

Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The Minister of Finance had exempted municipalities and municipal entities from complying with deadlines stated in sections 126(1) and (2), 127(1) and (2), 129(1) and 133(2) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003). Therefore, the municipalities and municipal entities must submit their Annual Financial Statements within two months after the 31 August 2020 which is the 31 October 2020.

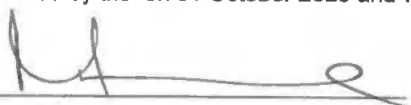
The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independent auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the on 31 October 2020 and were signed on its behalf by:



Ms MJ Ntshudisane
Municipal Manager

Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2020.

Audit committee members and attendance

The audit committee consists of the members listed below and should meet 4 times per annum as per its approved terms of reference. During the current year 7 meetings were held.

| Name of member | Number of meetings attended |
|--|-----------------------------|
| Mr L. Lankalebalela (Chairperson 01/07/2019 to 31/03/2020) | 7 |
| Mr M. Mokwele (Chairperson from 01/04/2020) | 7 |
| Ms M. Ndhlovu | 5 |
| Ms G. Molepo (01/07/2019 to 31/03/2020) | 2 |
| Ms T. Mathabatha (01/07/2019 to 31/03/2020) | 3 |
| Ms M. Mothelesi (From 01/04/2020) | 1 |
| Mr Mpaku (From 01/04/2020) | 1 |

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 (2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer and senior management of the municipality ;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.



Chairperson of the Audit Committee

Date: 30-10-2020

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Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 377 568 499 (2019: surplus R 333 876 802).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on continued funding by National Government as per DORA over the MTREF period. There are no reasons to believe that funding may be stopped in the foreseeable future.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Bankers

Standard bank has been appointed as the primary banker of the municipality during the year for a period of five years

6. Auditors

Auditor General (SA) will continue in office for the next financial period.

7. Provincial and National Treasury

In terms of MFMA 126(1)(a) the municipality and its entity must submit Annual Financial Statements (AFS) to Auditor General (SA), Provincial and National Treasury.

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand

| | Note(s) | 2020 | 2019 Restated* |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 6 | 31 882 944 | 22 284 009 |
| Other financial assets | 4 | 1 000 | 1 000 |
| Receivables from non-exchange transactions | 7 | 72 968 961 | 68 335 542 |
| VAT receivable | 8 | 40 805 496 | 48 372 548 |
| Receivables from exchange transactions | 9 | 124 776 059 | 104 189 796 |
| Cash and cash equivalents | 10 | 62 380 477 | 71 028 086 |
| | | 332 814 937 | 314 210 981 |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 3 667 605 623 | 3 394 414 659 |
| Total Assets | | 4 000 420 560 | 3 708 625 640 |
| Liabilities | | | |
| Current Liabilities | | | |
| Operating lease liability | 5 | 3 322 477 | 1 227 561 |
| Payables from exchange transactions | 14 | 427 919 726 | 522 021 605 |
| Consumer deposits | 15 | 4 371 415 | 4 207 572 |
| Unspent conditional grants and receipts | 12 | 68 934 376 | 61 052 578 |
| Provisions | 13 | 21 512 530 | 22 457 905 |
| | | 526 060 524 | 610 967 221 |
| Non-Current Liabilities | | | |
| Provisions | 13 | 20 559 970 | 21 426 853 |
| Total Liabilities | | 546 620 494 | 632 394 074 |
| Net Assets | | 3 453 800 066 | 3 076 231 566 |
| Reserves | | | |
| Revaluation reserve | 11 | 100 000 | 100 000 |
| Accumulated surplus | | 3 453 700 066 | 3 076 131 566 |
| Total Net Assets | | 3 453 800 066 | 3 076 231 566 |

* See Note 37

Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---------|------------------------|------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 17 | 94 840 932 | 86 518 023 |
| Interest received - Debtors | | 10 878 102 | 11 961 061 |
| Actuarial gains | | 3 413 060 | 927 478 |
| Other income | | 1 712 166 | 3 504 373 |
| Provision for landfill site written back | | - | 12 441 973 |
| Interest received | 18 | 16 007 311 | 11 954 312 |
| Total revenue from exchange transactions | | 126 851 571 | 127 307 220 |
| Revenue from non-exchange transactions | | | |
| Transfer revenue | | | |
| Government grants & subsidies | 20 | 1 303 813 770 | 1 320 391 855 |
| Total revenue | 16 | 1 430 665 341 | 1 447 699 075 |
| Expenditure | | | |
| Employee related costs | 21 | (397 644 268) | (373 574 925) |
| Remuneration of councillors | 22 | (15 466 714) | (16 597 724) |
| Repairs and maintenance | | (42 133 150) | (49 712 725) |
| Transfer payments - Other | | 129 000 | - |
| Depreciation and amortisation | 23 | (100 599 134) | (86 046 288) |
| Impairment loss | 24 | (44 579 544) | (3 665 803) |
| Finance costs | 25 | (3 534 349) | (3 829 748) |
| Lease rentals on operating lease | | (55 253 928) | (56 055 152) |
| Debt Impairment | 26 | (21 630 741) | (15 101 117) |
| Bad debts written off | | (2 630 289) | - |
| Bulk purchases | 27 | (108 852 631) | (196 006 452) |
| Contracted services | 28 | (58 983 449) | (66 260 366) |
| Transfers and Subsidies | 19 | (3 622 319) | (3 699 050) |
| Loss on disposal of assets and liabilities | | (503 734) | (378 146) |
| General Expenses | 29 | (197 791 592) | (242 894 777) |
| Total expenditure | | (1 053 096 842) | (1 113 822 273) |
| Surplus for the year | | 377 568 499 | 333 876 802 |

* See Note 37

Sekhukhune District Municipality

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Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus | Total net assets |
|---|------------------------|------------------------|----------------------|
| Opening balance as previously reported | 100 000 | 2 785 594 243 | 2 785 694 243 |
| Adjustments | | | |
| Prior year adjustments | - | (43 339 479) | (43 339 479) |
| Balance at 01 July 2018 as restated* | 100 000 | 2 742 254 764 | 2 742 354 764 |
| Changes in net assets | | | |
| Surplus for the year | - | 333 876 802 | 333 876 802 |
| Total changes | - | 333 876 802 | 333 876 802 |
| Restated* Balance at 01 July 2019 | - | 3 076 131 567 | 3 076 131 567 |
| Changes in net assets | | | |
| Surplus for the year | - | 377 568 499 | 377 568 499 |
| Revaluation surplus | 100 000 | - | 100 000 |
| Total changes | 100 000 | 377 568 499 | 377 668 499 |
| Balance at 30 June 2020 | 100 000 | 3 453 700 066 | 3 453 800 066 |
| Note(s) | 11 | | |

* See Note 37

Sekhukhune District Municipality

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Cash Flow Statement

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|-----------|--------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 99 077 320 | 53 678 758 |
| Grants | | 1 303 813 770 | 1 331 439 684 |
| Interest income | | 16 007 311 | 11 954 312 |
| Other receipts | | 1 712 166 | 3 504 373 |
| | | 1 420 610 567 | 1 400 577 127 |
| Payments | | | |
| Employee costs | | (412 859 190) | (389 872 174) |
| Suppliers | | (597 525 608) | (550 374 984) |
| Finance costs | | - | (346 934) |
| | | (1 010 384 798) | (940 594 092) |
| Net cash flows from operating activities | 31 | 410 225 769 | 459 983 035 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 3 | (418 873 378) | (492 102 696) |
| Cash flows from financing activities | | | |
| Repayment of other financial liabilities | | - | (276 925) |
| Net cash flows from financing activities | | - | (276 925) |
| Net increase/(decrease) in cash and cash equivalents | | (8 647 609) | (32 396 586) |
| Cash and cash equivalents at the beginning of the year | | 71 028 086 | 103 424 673 |
| Cash and cash equivalents at the end of the year | 10 | 62 380 477 | 71 028 087 |

* See Note 37

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|-----------------|-------------|--------------|------------------------------------|--|-----------|
|--|-----------------|-------------|--------------|------------------------------------|--|-----------|

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | | |
|---|--------------------|----------|--------------------|--------------------|----------------------|--------------|
| Service charges | 110 717 331 | - | 110 717 331 | 94 840 932 | (15 876 399) | Note 45 - N1 |
| Interest received (trading) | ■ 260 940 | - | 9 260 940 | 10 878 102 | 1 617 162 | Note 45 - N2 |
| Discount received | - | - | - | 3 413 060 | 3 413 060 | |
| Other income | ■ 932 962 | - | ■ ■■■ 962 | 1 712 166 | (220 796) | Note 45 - N3 |
| Provision for landfill site written back | 120 000 000 | - | 120 000 000 | - | (120 000 000) | Note 45 - N4 |
| Interest received - investment | 14 533 538 | - | 14 533 538 | 16 007 311 | 1 473 773 | |
| Total revenue from exchange transactions | 256 444 771 | - | 256 444 771 | 126 851 571 | (129 593 200) | |

Revenue from non-exchange transactions

Transfer revenue

| | | | | | | |
|-------------------------------|----------------------|----------|----------------------|----------------------|---------------------|--|
| Government grants & subsidies | 1 241 567 335 | - | 1 241 567 335 | 1 303 813 770 | ■ 2 ■■■ 435 | |
| Total revenue | 1 498 012 106 | - | 1 498 012 106 | 1 430 665 341 | (67 346 765) | |

Expenditure

| | | | | | | |
|--|----------------------|--------------------|----------------------|------------------------|----------------------|--------------|
| Personnel | (392 ■■■ 744) | - | (392 088 744) | (397 644 268) | (5 555 524) | |
| Remuneration of councillors | (15 466 714) | - | (15 466 714) | (15 466 714) | - | |
| Repairs and maintenance | (43 721 112) | - | (43 721 112) | (42 133 150) | 1 587 962 | |
| Transfer payments - Other | (1 052 000) | - | (1 052 000) | 129 000 | 1 181 000 | |
| Depreciation and amortisation | 80 430 272 | - | 80 430 272 | (100 599 134) | (181 029 406) | Note 45 - 5 |
| Impairment loss/ Reversal of impairments | - | - | - | (44 579 544) | (44 579 544) | Note 45-6 |
| Finance costs | (3 534 349) | 3 534 349 | - | (3 534 349) | (3 534 349) | Note 45 - 7 |
| Lease rentals on operating lease | (36 557 370) | - | (36 557 370) | (55 253 928) | (18 696 558) | Note 45 - 8 |
| Debt Impairment | - | - | - | (21 630 741) | (21 630 741) | Note 45 - 9 |
| Bad debts written off | 8 267 132 | (8 267 132) | - | (2 630 289) | (2 630 289) | |
| Bulk purchases | (108 636 965) | - | (108 ■■■ 965) | (108 852 631) | (215 666) | |
| Contracted Services | (92 124 595) | - | (92 124 595) | (58 983 449) | 33 141 146 | Note 45 - 10 |
| Transfers and Subsidies | (3 622 319) | 3 622 319 | - | (3 622 319) | (3 622 319) | |
| General Expenses | (323 333 318) | - | (323 333 318) | (197 791 592) | 125 541 726 | Note 45 - 11 |
| Total expenditure | (931 440 082) | (1 110 464) | (932 550 546) | (1 052 593 108) | (120 ■■■ 562) | |
| Operating surplus | 566 572 024 | (1 110 464) | 565 461 560 | 378 072 233 | (187 389 327) | |
| Loss on disposal of assets and liabilities | (503 735) | 503 735 | - | (503 734) | (503 734) | Note 45 - 16 |
| Surplus before taxation | 566 068 289 | (606 729) | 565 461 560 | 377 568 499 | (187 893 061) | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 566 068 289 | (606 729) | 565 461 560 | 377 568 499 | (187 893 061) | |

Sekhukhune District Municipality

(Registration number DC 47)
Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on a accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives ■■ waste ■■■ water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors ■■ impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value ■■ at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset ■■ monetary assets, or ■ combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value ■■■ not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of ■■ item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct ■■ item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site ■■ which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such ■■ spare parts, standby equipment and servicing equipment ■■■ recognised when they meet the definition of property, plant and equipment.

Major inspection costs which ■■■ a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value as determined by the local municipalities in the approved valuation rolls.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---------------------|---------------------|
| Land | Straight line | Indefinite lifespan |
| Community assets | Straight line | 15 to 30 years |
| Machinery and equipment | Straight line | 2 to 19 years |
| Transport assets | Straight line | 5 to 15 years |
| Furniture and office equipment | Straight line | 3 to 10 years |
| IT equipment | Straight line | 2 - 17 years |
| Leasehold improvements | Straight line | 5 to 10 years |
| Infrastructure - Water, reservoirs and reticulation | Straight line | 5 to 80 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality reviews at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 29).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of ■ financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of ■ financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when ■ counterparty has failed to make ■ payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of ■ entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- ■ formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of ■ entity.

Transaction costs ■ incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value; or
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of ■ recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|--|--|
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Other financial assets | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|-------------------------------------|--|
| Borrowings | Financial liability measured at amortised cost |
| Operating lease liability | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Bank overdraft | Financial liability measured at amortised cost |

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade  accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses ■ concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of ■ concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments ■ cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for ■ financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies ■ little as possible ■ entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. ■ demand deposit) ■ not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify ■ financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in ■ residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in ■ residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If ■ reliable measure becomes available for an investment in ■ residual interest for which ■ measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that ■ financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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1.6 Financial Instruments (continued)

If there is objective evidence that ■■■ impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset ■ reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in ■ subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting ■ allowance account. The reversal does not result in ■ carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred ■■ an investment in ■ residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured ■ their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable ■ changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

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Accounting Policies

1.7 Statutory receivables (continued)

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, at a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to remove the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

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1.8 Leases

A lease is classified as ■ finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as ■■ expense and the contractual payments ■■ recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories ■■ measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for ■ nominal charge; ■■
- consumption in the production process of goods to be distributed at no charge or for ■ nominal charge.

Net realisable value is the estimated selling price in the ordinary ■■■■ of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories for consumables is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and ■■ to the municipality.

The cost of inventories for Operations and Maintenance materials not bought through normal stores system are assigned using the first-in, first-out (FIFO) formula..

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related ■■■■ is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories ■■ recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as ■ reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Construction contracts and receivables

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, short-term money market instruments and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating ■ commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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1.11 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which ■■ asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating ■ commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal ■■■ incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or ■ cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as ■■ paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is ■ legal or constructive obligation to make such payments as ■ result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes ■■■ dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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1.12 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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1.13 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised ■ valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised ■■ a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies ■■■ disclosed in note 34.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in ■ note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

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Accounting Policies

1.18 Accounting by principals and agents (continued)

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with ■ requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. ■ of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which ■■■ not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, ■ debt account must be created ■ such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery ■ not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person ■ liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure ■ accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for ■ revenue in the Statement of Financial Performance.

1.23 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.24 Budget information

Municipality ■■■ typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources ■■■ obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are ■ the ■■■■ basis of accounting therefore ■ comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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Accounting Policies

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of ■■■ entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by ■ binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether ■ price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of ■■■ entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed ■ the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

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|-----------------|------|------|
|-----------------|------|------|

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

| Standard/ Interpretation: | Effective from Years beginning on or after | Expected impact: |
|--|--|--|
| ▪ GRAP 36: Investments in Associates and Joint Ventures | 01 April 2020 | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements | 01 April 2020 | Unlikely there will be a material impact |
| ▪ GRAP 110 (as amended 2016): Living and Non-living Resources | 01 April 2020 | Unlikely there will be a material impact |
| ▪ IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue | 01 April 2020 | Unlikely there will be a material impact |

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3. Property, plant and equipment

| | 2020 | | | 2019 | | |
|---------------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost / Valuation | Accumulated depreciation and impairment | Carrying value | Cost / Valuation | Accumulated depreciation and impairment | Carrying value |
| Plant and machinery | 5 868 273 | (2 006 435) | 3 861 838 | 5 519 545 | (1 859 743) | 3 659 802 |
| Furniture and office equipment | 10 084 627 | (5 734 772) | 4 349 855 | 10 351 007 | (5 755 673) | 4 595 334 |
| Transport assets | 14 249 293 | (4 737 022) | 9 512 271 | 11 142 572 | (4 719 951) | 6 422 621 |
| IT equipment | 14 849 605 | (7 172 697) | 7 676 908 | 11 131 642 | (5 648 229) | 5 483 413 |
| Leasehold improvements | 200 300 | (88 269) | 112 031 | 200 300 | (69 260) | 131 040 |
| Roads Infrastructure | 65 704 027 | (38 756 032) | 26 947 995 | 65 704 027 | (34 847 582) | 30 856 445 |
| Land and community assets | 37 855 665 | (18 505 095) | 19 350 570 | 37 855 665 | (17 660 154) | 20 195 511 |
| Wastewater network | 71 464 774 | (34 921 614) | 36 543 160 | 70 975 865 | (32 172 440) | 38 803 425 |
| Water network | 2 569 306 699 | (679 724 007) | 1 889 582 692 | 2 342 760 803 | (589 798 590) | 1 752 962 213 |
| Assets under construction (WIP) | 1 839 888 303 | - | 1 839 888 303 | 1 531 304 855 | - | 1 531 304 855 |
| Total | 4 459 251 566 | (791 645 943) | 3 667 605 623 | 4 459 251 566 | (692 847 622) | 3 766 757 944 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|---------------------------------|----------------------|---------------------|------------------|-----------------------|----------------------|----------------------|---------------------|----------------------|
| Plant and machinery | 3 659 802 | 1 026 315 | (129 660) | - | - | (694 619) | - | 3 861 838 |
| Furniture and office equipment | 4 595 334 | 864 022 | (27 530) | - | - | (1 081 971) | - | 4 349 855 |
| Transport assets | ■ 422 621 | 5 265 800 | (307 845) | - | - | (1 868 305) | - | 9 512 271 |
| IT equipment | 5 483 413 | 4 041 642 | (38 700) | - | - | (1 809 447) | - | 7 676 908 |
| Leasehold improvements | 131 040 | - | - | - | - | (19 009) | - | 112 031 |
| Roads Infrastructure | 30 856 445 | - | - | - | - | (3 908 450) | - | 26 947 995 |
| Land and Community Assets | 20 195 511 | - | - | - | - | (844 941) | - | 19 350 570 |
| Wastewater network | 38 803 425 | 488 909 | - | - | - | (2 740 736) | (8 438) | 36 543 160 |
| Water network | 1 752 962 213 | 20 439 268 | - | 206 106 628 | - | (87 631 658) | (2 293 759) | 1 889 582 692 |
| Assets under construction (WIP) | 1 531 304 855 | ■ 747 422 | - | - | (206 106 628) | - | (42 277 346) | 1 669 668 303 |
| | ■ 114 414 659 | 4 18 873 378 | (503 735) | 206 106 628 | (206 106 628) | (100 599 136) | (44 579 543) | 3 667 605 623 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

| | Opening balance | Additions | Transfers received | Disposals | Depreciation | Impairment loss | Total |
|---------------------------------|----------------------|--------------------|--------------------|------------------|---------------------|--------------------|----------------------|
| Plant and machinery | 2 518 704 | 1 760 652 | - | - | (534 967) | (84 587) | 3 659 802 |
| Furniture and equipment | 4 706 295 | 1 305 135 | - | - | (1 141 692) | (274 404) | 4 595 334 |
| Transport assets | 3 514 304 | 4 150 612 | - | - | (1 242 295) | - | 6 422 621 |
| IT equipment | 4 791 554 | 2 103 285 | - | - | (1 394 413) | (17 013) | 5 483 413 |
| Leasehold improvements | 153 545 | - | - | - | (22 505) | - | 131 040 |
| Roads Infrastructure | 34 975 203 | - | - | - | (3 930 229) | (188 529) | 30 856 445 |
| Land and community assets | 22 663 778 | - | - | (216 484) | (1 155 902) | (1 095 881) | 20 195 511 |
| Wastewater network | 41 603 209 | - | - | - | (2 797 641) | (2 143) | 38 803 425 |
| Water network | 1 557 374 985 | 33 075 710 | 238 400 137 | - | (73 723 803) | (2 164 816) | 1 752 962 213 |
| Assets under construction (WIP) | 1 319 997 690 | 449 707 302 | (238 400 137) | - | - | - | 1 531 304 855 |
| | 2 992 299 267 | 492 102 111 | - | (216 484) | (85 943 447) | (3 827 373) | 3 394 414 659 |

Pledged as security

No assets are pledged as security.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

| | | |
|------|---------------|---------------|
| Land | 1 669 668 303 | 1 531 304 105 |
|------|---------------|---------------|

Expenditure incurred in repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

| | | |
|-------------------------|------------|------------|
| Repairs and Maintenance | 38 753 853 | 49 712 725 |
|-------------------------|------------|------------|

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|--|-------------------|-------------------|
| 3. Property, plant and equipment (continued) | | |
| A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. | | |
| 4. Other financial assets | | |
| Residual interest at cost | | |
| Investment in Sekhukhune Development Agency | 1 000 | 1 000 |
| Investment - Municipal Entity (Sekhukhune Development Agency) The municipality is a sole shareholder of Sekhukhune Development Agency | | |
| Current assets | | |
| Residual interest at cost | 1 000 | 1 000 |
| 5. Operating lease liability | | |
| Current liabilities | (3 322 477) | (1 227 561) |
| Present value of minimum lease payments due | | |
| - within one year | (3 322 477) | (1 227 561) |
| The lease liability is due to payments on leases to be made in the future years as a result of straight lining operating leases on office rentals and fleet | | |
| 6. Inventories | | |
| Water inventory | 957 052 | 1 133 518 |
| Consumable stores | 1 490 069 | 1 342 000 |
| Maintenance materials | 29 435 823 | 19 808 491 |
| | 31 882 944 | 21 284 009 |
| 7. Receivables from non-exchange transactions | | |
| Government grants - RBIG Funds | 40 853 958 | 50 506 249 |
| Guarantees | 17 379 596 | 17 379 596 |
| Sundry debtors | 14 735 407 | 449 697 |
| | 72 968 961 | 68 335 542 |
| 8. VAT receivable | | |
| VAT | 40 805 496 | 48 372 548 |

Sekhukhune District Municipality is registered as a Category C (monthly) vendor as contemplated in Section 27(3) of the VAT Act Number 89 of 1991, submitting VAT returns on a monthly basis.

The Municipality calculates monthly tax payable in terms of Section 16(3)(b)(i), where the vendor in terms of Section 15 is required to account for tax payable on a payment basis (or cash basis).

The VAT receivable is mainly made up of outstanding refunds at year end, penalties on disallowed VAT that was paid after year end and VAT on debtors and creditors

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9. Receivables from exchange transactions

Gross balances

| | | |
|-------------|--------------------|--------------------|
| Water | 232 027 870 | 192 410 128 |
| Waste water | 15 395 117 | 12 795 855 |
| | 247 422 987 | 205 205 983 |

Less: Allowance for impairment

| | | |
|-------------|----------------------|----------------------|
| Water | (115 015 609) | (94 479 039) |
| Waste water | (7 631 319) | (6 537 148) |
| | (122 646 928) | (101 016 187) |

Net balance

| | | |
|-------------|--------------------|--------------------|
| Water | 117 012 261 | 97 931 089 |
| Waste water | 7 763 798 | 6 258 707 |
| | 124 776 059 | 104 189 796 |

Water

| | | |
|----------------------|--------------------|-------------------|
| Current (0 -30 days) | 9 212 705 | 7 594 888 |
| 31 - 60 days | 14 555 640 | 6 424 913 |
| 61 - 90 days | 7 952 247 | 5 513 185 |
| 91 - 120 days | 5 483 344 | 4 311 764 |
| 121 - 365 days | 194 512 934 | 168 565 379 |
| Debt Impairment | (115 015 609) | (94 479 040) |
| | 117 012 261 | 97 931 089 |

Waste water

| | | |
|----------------------|------------------|------------------|
| Current (0 -30 days) | 1 139 129 | 1 041 164 |
| 31 - 60 days | 1 486 250 | 695 253 |
| 61 - 90 days | 506 389 | 554 156 |
| 91 - 120 days | 442 300 | 500 558 |
| 121 - 365 days | 11 821 049 | 10 004 724 |
| Debt Impairment | (7 631 319) | (6 537 148) |
| | 7 763 798 | 6 258 707 |

Reconciliation of allowance for impairment

| | | |
|----------------------------------|----------------------|----------------------|
| Balance at beginning of the year | (101 016 187) | (85 915 070) |
| Contributions to allowance | (21 630 741) | (15 101 117) |
| | (122 646 928) | (101 016 187) |

10. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|-------------------|-------------------|
| Bank balances | 30 694 259 | 12 159 794 |
| Short-term deposits | 31 686 218 | 58 868 292 |
| | 62 380 477 | 71 028 086 |

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10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---------------------------------|-------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
| | 30 June 2020 | 30 June 2019 | 30 June 2018 | 30 June 2020 | 30 June 2019 | 30 June 2018 |
| Standard Bank - Primary Account | 733 311 | 10 678 590 | 18 497 863 | 30 694 259 | 12 159 794 | 18 295 305 |
| FNB Call Account | - | 775 630 | 327 272 255 | - | 775 630 | 32 727 255 |
| Nedbank Call Account | - | 16 150 624 | - | - | 16 150 624 | 42 271 |
| ABSA Call Account | - | 41 941 330 | - | - | 41 942 038 | 87 300 |
| Standard Bank Call Account | 31 538 923 | - | 52 272 542 | 31 686 218 | - | 52 272 542 |
| Total | 90 272 234 | 69 546 174 | 398 042 660 | 62 380 477 | 71 028 086 | 103 424 673 |

11. Revaluation reserve

| | | |
|---------------------|---------|---------|
| Revaluation surplus | 100 000 | 100 000 |
|---------------------|---------|---------|

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

| Unspent conditional grants and receipts | | |
|---|-------------------|-------------------|
| Municipal Infrastructure Grant (MIG) | 47 086 615 | 16 168 634 |
| Finance Management Grant (FMG) | (3 040) | 5 |
| Water Services Infrastructure Grant (WSIG) | 21 353 651 | 44 877 946 |
| Expanded Public Works Programme (EPWP) | 653 | 653 |
| Rural Roads Asset Management System Grant (RRAMS) | 369 423 | 5 340 |
| Municipal Disaster Management Grant | 127 074 | - |
| | 68 934 376 | 61 052 578 |

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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13. Provisions

Reconciliation of provisions - 2020

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
|------------------------------|-------------------|------------------|--------------------------|---------------------------|--|-------------------|
| Unused leave provision | 24 398 343 | 2 883 750 | (2 041 950) | 2 137 247 | (2 991 890) | 24 385 500 |
| Long service award provision | 19 486 415 | 1 658 000 | (4 434 275) | 1 397 102 | (421 170) | 17 687 000 |
| | 43 884 758 | 4 542 678 | (6 476 225) | 3 534 349 | (3 413 060) | 42 072 500 |

Reconciliation of provisions - 2019

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
|------------------------------|-------------------|------------------|--------------------------|--------------------------|---------------------------|--|------------------|
| Environmental rehabilitation | 12 441 973 | - | (12 441 973) | - | - | - | - |
| Unused leave provision | 26 036 129 | 3 429 240 | - | (3 365 462) | 2 254 083 | (3 955 647) | 24 398 34 |
| Long service award provision | 15 340 506 | 1 485 483 | - | (1 444 475) | 1 228 732 | 3 028 169 | 19 486 41 |
| | 53 818 608 | 4 914 723 | (12 441 973) | (4 961 937) | 3 482 815 | (927 478) | 43 884 75 |
| Non-current liabilities | | | | | 20 559 970 | 21 426 853 | |
| Current liabilities | | | | | 21 512 530 | 22 457 905 | |
| | | | | | 42 072 500 | 43 884 758 | |

Unused leave provision

The provision is the value of unused leave liability at year end. The following assumptions were used in the determination of the leave liability:

The discount rate of 7,4% and the general salary inflation of 3,96% resulting in net effective discount rate of 3,32%. The average retirement age was assumed to be 62 years.

Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the long service award liability:

852 employees were eligible for long service awards. The discount rate of 10,04% and the general salary inflation of 5,68% resulting in net effective discount rate of 4,12%. The average retirement age was assumed to be 62 years.

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|---|----------------------|----------------------|
| 14. Payables from exchange transactions | | |
| Trade payables | 239 185 108 | 349 483 402 |
| Other payables | 7 495 400 | 952 302 |
| Retention and sessions | 169 941 017 | 160 992 562 |
| Deposits received | 184 846 | 2 675 571 |
| Bonus provision | 8 113 267 | 7 917 768 |
| | 427 919 726 | 522 021 605 |
| 15. Consumer deposits | | |
| Water | 4 371 415 | 4 207 572 |
| 16. Revenue | | |
| Service charges | 94 840 932 | 86 518 023 |
| Interest received (trading) | 10 878 102 | 11 961 061 |
| Actuarial gains | 3 413 060 | 927 478 |
| Other income | 1 712 166 | 3 504 373 |
| Provision for landfill written back | - | 12 441 973 |
| Interest received - investment | 16 007 311 | 11 954 312 |
| Government grants & subsidies | 1 303 813 770 | 1 320 391 855 |
| | 1 430 665 341 | 1 447 699 075 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 94 840 932 | 86 518 023 |
| Interest received (trading) | 10 878 102 | 11 961 061 |
| Actuarial gains | 3 413 060 | 927 478 |
| Other income | 1 712 166 | 3 504 373 |
| Provision for landfill written back | - | 12 441 973 |
| Interest received - investment | 16 007 311 | 11 954 312 |
| | 126 851 571 | 127 307 220 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Government grants & subsidies | 1 303 813 770 | 1 320 391 855 |
| 17. Service charges | | |
| Sale of water | 81 909 151 | 79 192 795 |
| Sewerage and sanitation charges | 12 931 781 | 7 325 228 |
| | 94 840 932 | 86 518 023 |
| 18. Investment revenue | | |
| Interest revenue | | |
| Short term investments | 14 336 728 | 9 689 842 |
| Primary bank account | 1 670 583 | 2 264 470 |
| | 16 007 311 | 11 954 312 |

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|---|-----------|-----------|
| 19. Grants and subsidies paid | | |
| Other subsidies | | |
| Sekhukhune District Development Agency Grants | 3 622 319 | 3 699 050 |

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20. Government grants and subsidies

Operating grants

| | | |
|--|--------------------|--------------------|
| Equitable share | 769 247 580 | 711 480 000 |
| Expanded Public Works Programme Grant (EPWP) | 2 665 000 | 1 745 347 |
| Finance Management Grant (FMG) | 1 788 045 | 1 319 995 |
| Rural Roads Assets Management Grant (RRAMS) | 2 062 917 | 2 285 000 |
| Municipal Disaster Grant | 766 926 | - |
| National Department of Labour : SETA | 708 098 | - |
| | 777 238 566 | 716 831 002 |

Capital grants

| | | |
|--|----------------------|----------------------|
| Municipal Infrastructure Grant (MIG) | 418 108 385 | 480 067 221 |
| Rural Bulk Infrastructure Grant (RBIG) | 69 820 470 | 95 187 491 |
| Water Services Infrastructure Grant (WSIG) | 38 646 349 | 28 306 141 |
| | 526 575 204 | 603 560 853 |
| | 1 303 813 770 | 1 320 391 855 |

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|-------------------------------|----------------------|----------------------|
| Conditional grants received | 526 575 204 | 608 911 855 |
| Unconditional grants received | 777 238 566 | 711 480 000 |
| | 1 303 813 770 | 1 320 391 855 |

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant (MIG)

| | | |
|---|-------------------|-------------------|
| Balance unspent at beginning of year | 16 168 634 | 36 834 705 |
| Current-year receipts | 465 195 000 | 464 936 000 |
| Conditions met - transferred to revenue | (418 108 386) | (480 067 071) |
| Refunded to National Treasury | (16 168 633) | (5 535 000) |
| | 47 086 615 | 16 168 634 |

Conditions still to be met - remain liabilities (see note 12).

Expanded Public Works Programme (EPWP)

| | | |
|---|----------------|-------------|
| Balance unspent at beginning of year | 5 | - |
| Current-year receipts | 2 665 000 | 1 746 000 |
| Conditions met - transferred to revenue | (2 665 000) | (1 745 995) |
| Overspend | (3 045) | - |
| | (3 040) | 5 |

Conditions still to be met - remain liabilities (see note 12).

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Government grants and subsidies (continued)

Water Services Infrastructure Grant (WSIG)

| | | |
|---|-------------------|-------------------|
| Balance unspent at beginning of year | 44 877 946 | 8 184 087 |
| Current-year receipts | 60 000 000 | 65 000 000 |
| Conditions met - transferred to revenue | (38 646 349) | (28 306 141) |
| Refunded to National Treasury | (44 877 946) | - |
| | 21 353 651 | 44 877 946 |

Conditions still to be met - remain liabilities (see note 12).

Finance Management Grant (FMG)

| | | |
|---------------------------------------|-------------|-------------|
| Balance unspent at beginning of year | 653 | - |
| Current-year receipts | 1 785 000 | 1 320 000 |
| Conditions met-transferred to revenue | (1 788 045) | (1 319 347) |
| Overspending | 3 045 | - |
| | 653 | 653 |

Conditions still to be met - remain liabilities (see note 12).

Rural Roads Asset Management System Grant (RRAMS)

| | | |
|---|----------------|--------------|
| Balance unspent at beginning of year | 5 340 | - |
| Current-year receipts | 2 427 000 | 2 291 000 |
| Conditions met - transferred to revenue | (2 062 917) | (2 285 660) |
| | 369 423 | 5 340 |

Conditions still to be met - remain liabilities (see note 12).

Municipal Disaster Grant

| | | |
|---|----------------|----------|
| Current-year receipts | 766 926 | - |
| Conditions met - transferred to revenue | (639 852) | - |
| | 127 074 | - |

Conditions still to be met - remain liabilities (see note 12).

Regional Bulk Infrastructure Grant (RBIG)

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | (50 506 249) | (47 673 672) |
| Current-year receipts | 79 472 761 | 92 354 914 |
| Conditions met - transferred to revenue | (69 820 470) | (95 187 491) |
| Closing Balance | 40 853 958 | 506 249 |

National Department of Labour:SETA

| | | |
|---|-----------|----------|
| Current-year receipts | 708 098 | - |
| Conditions met - transferred to revenue | (708 098) | - |
| | - | - |

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

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20. Government grants and subsidies (continued)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 03 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

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|--|--------------------|--------------------|
| 21. Employee related costs | | |
| Basic | 251 891 919 | 239 920 094 |
| Medical aid - company contributions | 10 558 741 | 12 018 882 |
| UIF | 1 494 963 | 1 499 817 |
| SDL | 2 767 765 | 3 064 703 |
| Bargaining council | 95 744 | 91 057 |
| Leave pay provision charge | 5 269 601 | 4 340 745 |
| Group life | 1 129 576 | 1 163 108 |
| Pension Fund | 38 971 309 | 36 201 677 |
| Travel, motor car, accommodation, subsistence and other allowances | 27 746 159 | 28 558 257 |
| Overtime payments | 36 220 474 | 27 585 129 |
| Long-service awards | 4 159 787 | 1 700 201 |
| Housing benefits and allowances | 2 270 088 | 2 219 431 |
| Cellphone allowance | 1 558 462 | 1 710 344 |
| Shift and standby allowance | 13 305 130 | 13 113 480 |
| Uniform allowance | 74 550 | 60 000 |
| | 397 644 268 | 373 574 925 |
| Remuneration of municipal manager | | |
| Annual Remuneration | 660 842 | 1 091 228 |
| Car Allowance | - | 240 000 |
| Contributions to UIF, Medical and Pension Funds | 90 558 | 158 101 |
| Settlement Lumpsum | 735 313 | 127 761 |
| Leave pay-out | 67 865 | - |
| Acting Allowance | 28 512 | - |
| | 1 583 358 | 1 617 090 |
| Remuneration of chief finance officer | | |
| Annual Remuneration | 221 895 | 295 860 |
| Car Allowance | - | 28 000 |
| Contributions to UIF, Medical and Pension Funds | 29 407 | 39 250 |
| Other Allowances | 13 938 | 26 360 |
| Subsistence and Travelling Allowance | - | 67 231 |
| | 265 240 | 436 701 |
| Director - Corporate Services | | |
| Annual Remuneration | 849 209 | 788 428 |
| Car Allowance | - | 72 000 |
| Performance Bonuses | 591 | - |
| Contributions to UIF, Medical and Pension Funds | 74 989 | 72 770 |
| Other Allowances | 47 061 | 217 049 |
| | 1 039 850 | 1 150 247 |

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1. Employee related costs (continued)

Director Community Services

| | | |
|---|----------------|------------------|
| Annual Remuneration | 604 702 | 1 160 747 |
| Car Allowance | - | 60 000 |
| Annual Bonus | 74 234 | - |
| Contributions to UIF, Medical and Pension Funds | 22 225 | 159 429 |
| Other Allowances | 48 410 | 98 471 |
| Leave pay-out | 73 541 | - |
| | 823 112 | 1 478 647 |

Director Infrastructure and Water Services

| | | |
|---|---|------------------|
| Annual Remuneration | - | 782 581 |
| Car Allowance | - | 192 936 |
| Contributions to UIF, Medical and Pension Funds | - | 135 246 |
| Other Allowances | - | 85 442 |
| | - | 1 196 205 |

Director Planning and Economic Development

| | | |
|---|------------------|------------------|
| Annual Remuneration | 969 493 | 943 222 |
| Car Allowance | 156 000 | 156 000 |
| Contributions to UIF, Medical and Pension Funds | 118 236 | 125 433 |
| Other Allowances | 82 129 | 102 174 |
| | 1 325 858 | 1 326 829 |

Chief Audit Executive

| | | |
|---|------------------|------------------|
| Annual Remuneration | 892 078 | 1 100 887 |
| Car Allowance | 90 000 | 120 000 |
| Performance Bonuses | 65 872 | - |
| Contributions to UIF, Medical and Pension Funds | 129 501 | 182 493 |
| Other Allowances | 48 138 | 298 |
| | 1 225 589 | 1 472 678 |

Acting Municipal Manager

| | | |
|---|----------------|---|
| Annual Remuneration | 693 085 | - |
| Contributions to UIF, Medical and Pension Funds | 92 154 | - |
| Acting Allowance | 29 112 | - |
| Other Allowances | 70 771 | - |
| | 885 122 | - |

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| 21. Employee related costs (continued) | | |
| Acting Chief Finance Officer | | |
| Annual Remuneration | 767 444 | - |
| Annual Bonus | 52 671 | - |
| Contributions to UIF, Medical and Pension Funds | 156 341 | - |
| Other Allowances | 773 | - |
| | 1 003 229 | - |
| Acting Director Infrastructure and Water Services | | |
| Annual Remuneration | 874 290 | - |
| Other Allowances | 38 281 | - |
| Contributions to UIF, Medical and Pension Funds | 161 087 | - |
| | 1 073 658 | - |
| Acting Chief Audit Executive | | |
| Annual Remuneration | 145 630 | - |
| Acting Allowance | 4 339 | - |
| Other Allowances | 4 797 | - |
| | 154 766 | - |
| Acting Director Community Services | | |
| Annual Remuneration | 342 608 | - |
| Contributions to UIF, Medical and Pension Funds | 80 981 | - |
| Other Allowances | 56 000 | - |
| | 480 197 | - |
| Acting Director Corporate Services | | |
| Annual Remuneration | 251 148 | - |
| Acting Allowance | 12 545 | - |
| Contributions to UIF, Medical and Pension Funds | 48 377 | - |
| Other Allowances | 11 563 | - |
| | 323 633 | - |
| 22. Remuneration of councillors | | |
| Executive Mayor | 821 923 | 808 767 |
| Chief Whip | 594 736 | 749 203 |
| Mayoral Committee Members | 657 134 | 6 762 059 |
| Speaker | 760 769 | 729 532 |
| Councillors | 6 632 152 | 7 541 163 |
| | 15 466 714 | 16 597 724 |

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22. Remuneration of councillors (continued)

Executive Mayor: Cllr Ramaila KS

| | | |
|---|----------------|----------------|
| Annual Remuneration | 723 835 | 714 388 |
| Cellphone Allowance | 43 800 | - |
| Other Allowances | - | 40 800 |
| Contributions to UIF, Medical and Pension Funds | 54 288 | 53 579 |
| | 821 923 | 808 767 |

Council Speaker: Cllr Manamela MM

| | | |
|---|----------------|----------------|
| Annual Remuneration | 255 | 623 173 |
| Cellphone Allowance | 43 800 | 40 800 |
| Contributions to UIF, Medical and Pension Funds | 48 619 | 46 738 |
| Medical Aid Benefit | 20 095 | 18 821 |
| | 727 569 | 729 532 |

Chief Whip: Cllr Lepota TJ

| | | |
|---|----------------|----------------|
| Annual Remuneration | 326 243 | 410 720 |
| Cellphone Allowance | 188 072 | 235 573 |
| Performance Bonuses | 32 700 | 40 800 |
| Contributions to UIF, Medical and Pension Funds | 22 957 | 30 804 |
| Medical Aid Benefit | 24 764 | 31 306 |
| | 594 736 | 749 203 |

Mayoral Committee Members

| | | |
|---|------------------|------------------|
| Annual Remuneration | 3 415 415 | 3 306 840 |
| Travelling Allowance | 2 436 155 | 2 677 700 |
| Cellphone Allowance | 373 700 | 367 200 |
| Contributions to UIF, Medical and Pension Funds | 257 407 | 247 969 |
| Medical Aid Benefit | 174 457 | 162 351 |
| | 6 657 134 | 6 762 060 |

23. Depreciation and amortisation

| | | |
|-------------------------------|-------------|------------|
| Property, plant and equipment | 100 599 134 | 86 046 288 |
|-------------------------------|-------------|------------|

24. Impairment of assets

Impairments

| | | |
|-------------------------------|------------|-----------|
| Property, plant and equipment | 44 579 544 | 3 665 803 |
|-------------------------------|------------|-----------|

The municipality has assessed the slow moving projects and immovable assets for existence of impairment conditions. The recoverable amount of the asset is based on its fair value less its value in use.

25. Finance costs

| | | |
|---------------------------|------------------|------------------|
| Borrowings | - | 11 077 |
| Late payment of creditors | - | 335 856 |
| Discounting of provisions | 3 534 349 | 3 482 815 |
| | 3 534 349 | 3 829 748 |

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| 26. Debt impairment | | |
| Debt impairment | 21 630 741 | 15 101 117 |
| 27. Bulk purchases | | |
| Water | 108 852 631 | 196 006 452 |
| 28. Contracted services | | |
| Presented previously | | |
| VIP Sanitation | 58 983 449 | 53 260 366 |
| 29. General expenses | | |
| Advertising | 540 579 | 937 764 |
| Auditors remuneration | 864 299 | 7 083 483 |
| Bank charges | 297 281 | 278 500 |
| Computer expenses | 163 365 | - |
| Consulting and professional fees | 27 900 487 | 45 860 339 |
| Audit committee expenses | 522 524 | 564 520 |
| IT support | 1 300 043 | 4 362 178 |
| Entertainment | 35 573 | 33 785 |
| Accommodation | 473 062 | 770 001 |
| Hire charges | 729 082 | 923 572 |
| Insurance | 760 586 | 3 526 968 |
| Packaging | 21 200 | - |
| Fuel and oil | 17 291 141 | 12 434 655 |
| Printing and stationery | 1 195 085 | 2 954 156 |
| Protective clothing | 1 559 | 2 646 163 |
| Security (Guarding of municipal property) | 43 785 180 | 34 835 805 |
| Software expenses | 4 031 182 | 2 288 920 |
| Staff welfare | 25 301 | 835 417 |
| Subscriptions and membership fees | 3 706 796 | 3 645 410 |
| Telephone and fax | 3 857 216 | 4 438 018 |
| Transport and freight | (412 630) | 2 637 611 |
| Training | 1 172 800 | 2 283 201 |
| Travel - local | 238 | 1 269 325 |
| Electricity | 43 172 300 | 41 181 309 |
| Other expenses | 2 540 930 | 5 037 257 |
| Tankering costs | 15 529 045 | 43 048 319 |
| Catering services | 787 818 | 3 035 286 |
| Staff recruitment | 186 119 | 393 720 |
| Meter reading | 8 815 341 | 671 902 |
| Bursaries | 695 925 | 1 946 968 |
| Audio-visual services | 4 593 836 | 4 970 225 |
| | 197 791 592 | 242 894 777 |
| 30. Auditors' remuneration | | |
| Fees | 5 215 784 | 286 326 |
| Consulting | 1 648 515 | 797 157 |
| | 6 864 299 | 7 083 483 |

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|--|--------------------|--------------------|
| 31. Cash generated from operations | | |
| Surplus | 377 568 499 | 333 876 802 |
| Adjustments for: | | |
| Depreciation and amortisation | 100 599 134 | 86 046 223 |
| Gain on sale of assets and liabilities | 503 734 | 378 146 |
| Impairment deficit | 44 579 544 | 665 803 |
| Debt impairment | 21 630 741 | 15 101 117 |
| Bad debts written off | 2 630 289 | - |
| Movements in operating lease assets and accruals | 2 094 916 | 267 305 |
| Provision for land fill written back | - | (12 441 973) |
| Movement in Post retirement benefit | (1 812 258) | 2 508 123 |
| Changes in working capital: | | |
| Inventories | (9 598 935) | 3 977 445 |
| Consumer debtors | (44 847 293) | (49 174 425) |
| Other receivables from non-exchange transactions | (4 633 419) | (3 505 275) |
| Payables from exchange transactions | (94 101 876) | 53 098 116 |
| Accrued VAT receivable | 7 567 052 | 9 853 533 |
| Unspent conditional grants and receipts | 7 881 798 | 16 033 786 |
| Consumer deposits | 163 843 | 400 484 |
| | 410 225 769 | 459 122 035 |

32. Financial instruments disclosure

Categories of financial Instruments

2020

Financial assets

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Other financial assets | 1 000 | 1 000 |
| Trade and other receivables from exchange transactions | 124 776 059 | 124 776 059 |
| Other receivables from non-exchange transactions | 72 968 961 | 72 968 961 |
| Cash and cash equivalents | 62 380 477 | 62 380 477 |
| | 260 126 497 | 260 126 497 |

Financial liabilities

| | At amortised cost | Total |
|---|-------------------|-------------|
| Trade and other payables from exchange transactions | 427 919 728 | 427 919 728 |

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|-----------------|------|------|
|-----------------|------|------|

Financial instruments disclosure (continued)

2019

Financial assets

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Other financial asset | 1 000 | 1 000 |
| Revenue from non-exchange transactions | 70 497 991 | 70 497 991 |
| Receivables from exchange transactions | 104 189 796 | 104 189 796 |
| Cash and cash equivalents | 71 028 086 | 71 028 086 |
| | 245 716 873 | 245 716 873 |

Financial liabilities

| | At amortised cost | Total |
|---|-------------------|-------------|
| Trade and other payables from exchange transactions | 522 021 605 | 522 021 605 |

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for

| | | |
|---------------------------------|-------------|-------------|
| ▪ Property, plant and equipment | 452 669 001 | 400 647 992 |
|---------------------------------|-------------|-------------|

Not yet contracted for and authorised by accounting officer

| | | |
|---------------------------------|-------------|------------|
| ▪ Property, plant and equipment | 990 171 660 | 52 021 009 |
|---------------------------------|-------------|------------|

Total capital commitments

| | | |
|---|----------------------|--------------------|
| Already contracted for but not provided for | 452 669 001 | 400 647 992 |
| Not yet contracted for and authorised by accounting officer | 990 171 660 | 52 021 009 |
| | 1 442 840 661 | 452 669 001 |

Total commitments

Total commitments

| | | |
|--------------------------------|---------------|-------------|
| Authorised capital expenditure | 1 442 840 661 | 452 669 001 |
|--------------------------------|---------------|-------------|

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, and government grants.

Operating leases - as lessee (expense)

Minimum lease payments due

| | | |
|-------------------------------------|-------------------|-------------------|
| - within 12 month year | 35 331 693 | 28 304 327 |
| - in second to fifth year inclusive | 8 751 556 | 34 070 418 |
| | 44 083 249 | 62 374 745 |

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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|-----------------|------|------|

34. Contingencies

Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payment to contractors and dismissed employees to the value of R 3,812,423- (2019 - R 63,679,469). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next two years.

35. Related parties

Relationships

Accounting Officer

Refer to accounting officer's report note 21

Controlled entities

Refer to note 19

Key members of management

Refer to note 22

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

| | | |
|---|---------|---------|
| Sekhukhune Development Agency | 572 449 | 581 505 |
| Matz Civil and Megastructures (Proprietary) Limited | 881 500 | - |

The director of Matz Civil and Megastructures is a son to Councillor M.A. Matlala.

Other Related Party Transactions and Balances

| | | |
|--|-----------|-----------|
| Investment in Sekhukhune Development Agency | 1 000 | 1 000 |
| Grants and subsidies paid to Sekhukhune Development Agency | 3 622 319 | 3 586 449 |

36. Change in estimate

Property, plant and equipment

The useful life of certain plant was estimated in 2006 to be certain years. In the current period management have revised their estimate to other years. The effects of these revisions have increased the depreciation and accumulated depreciation amounts for the current and future periods as follows: -

The impact on the cash flow statement is nil.

Furniture and Office Equipment

The useful life of Furniture and Office Equipment was estimated in 2006 to be 2-19 years. In the current period management have revised their estimate to 2-20 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R50,653.11

The impact on the cash flow statement is nil

Leasehold Improvements

The useful life of Leasehold Improvements was estimated in 2006 to be 5-15 years. In the current period management have revised their estimate to 8-10 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R 3 557

The impact on the cash flow statement is nil

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2019

36. Change in estimate (continued)

Transport Assets

The useful life of Transport Assets was estimated in 2006 to be 5-15 years. In the current period management have revised their estimate to 5-16 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R 68 998.

The impact on the cash flow statement is nil.

37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2019

| | Note | As previously reported | Correction of error | Restated |
|--|------|------------------------|---------------------|----------------------|
| Property, plant and equipment | | 3 351 264 450 | 43 150 209 | 3 394 414 659 |
| Receivables from non-exchange transactions | | 713 224 | (1 377 682) | 68 335 542 |
| Trade payables | | 442 816 618 | 79 203 379 | 522 021 605 |
| Receivables from exchange transactions | | 100 168 901 | 4 020 895 | 104 189 796 |
| Consumer Deposits | | 4 209 180 | (1 608) | 4 207 572 |
| VAT Receivable | | 48 552 674 | (180 126) | 48 372 548 |
| Accumulated Surplus | | 3 109 721 649 | (33 590 083) | 3 076 131 566 |
| | | 7 126 446 696 | 224 984 | 7 217 771 288 |

Statement of financial performance

2019

| | Note | As previously reported | Correction of error | Reclassification | Restated |
|-------------------------------|------|------------------------|---------------------|------------------|--------------------|
| Service charges | | 86 115 109 | 402 914 | - | 86 518 023 |
| Interest received-Debtors | | 11 892 632 | 68 429 | - | 11 961 061 |
| Employee related costs | | 373 664 049 | - | (89 124) | 373 574 925 |
| General expenses | | 245 537 821 | - | 89 124 | 245 626 945 |
| Depreciation and amortisation | | 852 | 107 436 | - | 108 288 |
| Repairs and maintenance | | 56 366 047 | (6 653 322) | - | 49 712 725 |
| Surplus for the year | | 859 514 510 | (6 074 543) | - | 853 439 967 |

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| 37. Prior-year adjustments (continued) | | | |
| Cash flow statement | | | |
| 2019 | | | |
| | Note | As previously reported | Reclassification |
| Cash flow from operating activities | | | |
| Sales of goods and services | | 53 678 758 | 54 150 093 |
| Employee costs | | (389 872 174) | (389 783 050) |
| Suppliers | | (557 028 309) | (551 035 445) |
| | | (893 171 725) | (886 668 402) |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | | (485 449 373) | (420 964 828) |

Errors

The following prior period errors adjustments occurred:

Property, plant and equipment

1. Recognition was made of items of Work-in-Progress that was omitted from capitalisation in the prior year.
2. Recognition was made of Water Infrastructure assets that were acquired through expenditure votes in the prior and were not transferred to assets.

Receivables

1. **Receivables from non-exchange transactions:** there were reclassifications of items of receivables from exchange transactions that were incorrectly classified hereinunder in the prior year.
2. **Receivables from exchange transactions:** there were reclassifications from receivables from non-exchange transactions of items that were incorrectly classified therein in the prior year.
3. a) **VAT accrued:** VAT was accounted for on billings on properties that have not billed in the prior year.
b) VAT was accounted for on retentions on payments that were not raised in the prior year.

Payables

1. **Trade payables:** recognition was made of the debt owed by Sekhukhune District Municipality to Lepelle Northern Water. The recognition of which was omitted in the previous year.
2. **Retentions:** corrections were made of prior year retentions.
3. **Salary suspense:** correction was made of prior year to clear third party salary suspense account.

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37. Prior-year adjustments (continued)

Statement of Financial Performance

1. Service charges: correction was made of the billing on certain properties that were omitted in the prior year.

2. Interest received: interest was charged on the billing of certain properties that were omitted in the prior year.

3. Employee-related costs: amounts of staff accommodation were reclassified to general expenses. These amounts were previously erroneously classified as employee-related costs.

4. General expenses: amounts of staff accommodation that were previously classified as employee costs in error have been reclassified as general expenses.

5. Depreciation: depreciation charges were allocated to the items of property, plant and equipment that were capitalised after having been omitted in the prior year.

6. Repairs and maintenance: items of property, plant and equipment acquired using some repairs and maintenance votes that had not been capitalised in the previous year were reclassified.

38. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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39. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on continued funding by National Treasury as per the DORA over MTREF period. Therefore, there are no reasons to believe that funding may be stopped in the foreseeable future.

40. Events after the reporting date

The Council appointed Municipal Manager, Acting Chief Financial Officer and Director Infrastructure and Water Services after year end.

41. Covid-19 Disclosure

Revenue

The municipality realised a decline in revenue collection as a result of the spread of the virus and its economic impact.

Debt repayment

As a result of the difficult economic conditions, the municipality will normally employ council approved Credit control policy and by-laws to collect due debt by customers. The municipality will therefore restrict water as a measure for debt collection, however such restrictions were viewed as a violation of Covid-19 lock regulations.

The municipality's receivables reported at R247,422,987 (2019: R204,634,357) which implies an increase in trade receivables of about R43 million.

Government grants

The municipality received a government grant of R766,926 to cover the effects of Covid-19 pandemic and the grant was disclosed in terms of GRAP 23 requirements.

42. Unauthorised expenditure

| | | |
|--|--------------------|--------------------|
| Opening balance as previously reported | 248 904 203 | 54 159 575 |
| Opening balance as restated | 248 904 203 | 54 159 575 |
| Expenditure during the year | 194 283 543 | 194 744 628 |
| Closing balance | 443 187 746 | 248 904 203 |

43. Fruitless and wasteful expenditure

| | | |
|--|-------------------|------------------|
| Opening balance as previously reported | 5 878 943 | 5 347 630 |
| Opening balance as restated | 5 878 943 | 5 347 630 |
| Expenditure during the year | 12 147 786 | 531 313 |
| Closing balance | 18 026 729 | 5 878 943 |

44. Irregular expenditure

| | | |
|---|--------------------|----------------------|
| Opening balance as previously reported | 772 181 375 | 1 217 747 432 |
| Add: Irregular Expenditure - current year | 116 733 040 | 27 080 974 |
| Add: Amounts written off as irrecoverable (not condoned) | 888 914 415 | 1 244 828 406 |
| Less: Amount written off - current | - | (472 647 031) |
| Closing balance | 888 914 415 | 772 181 375 |

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| 44. Irregular expenditure (continued) | | |
| Cases under investigation | | |
| As far as prior year UIF was reported to council and council referred it to MPAC for further investigations. The MPAC report was tabled in Council with recommendation and disciplinary measures to be taken by the accounting officer. | | |
| 45. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 3 723 209 | 3 627 328 |
| Amount paid - current year | (3 723 209) | (3 627 328) |
| | - | - |
| Material losses (Water distribution) | | |
| Kilolitres of water lost | 10 547 557 | 11 189 317 |
| Value of water losses during the year | 51 623 011 | 60 682 242 |
| Audit fees | | |
| Opening balance | - | 1 024 743 |
| Current year subscription / fee | 60 746 745 | 6 816 627 |
| Amount paid - current year | (60 746 745) | (7 841 370) |
| | - | - |
| PAYE and UIF | | |
| Opening balance | - | 4 590 221 |
| Current year subscription / fee | 68 975 502 | 78 272 673 |
| Amount paid - current year | (68 975 502) | (82 862 894) |
| | - | - |
| Pension and Medical Aid Deductions | | |
| Opening balance | - | (142 425) |
| Current year subscription / fee | 80 679 826 | 74 808 023 |
| Amount paid - current year | (80 675 178) | (74 549 454) |
| | 4 648 | 116 144 |

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45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

| 30 June 2020 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------------------|--|--|--------------|
| Councillor Nchabeleng TL | 155 | 52 | 207 |
| Councillor Matsetela ML | 2 312 | 703 | 3 015 |
| | 2 467 | 755 | 3 222 |

| 30 June 2019 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------------------|--|--|---------------|
| Councillor Sihlangu TL | 83 | - | 83 |
| Councillor Nchabeleng TL | 1 172 | - | 1 172 |
| Councillor Matsetela ML | - | 15 288 | 15 288 |
| | 1 255 | 15 288 | 16 543 |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

The municipality has deviated from normal supply chain processes with transactions to the value of R933,814.75. The transactions were duly reported to council and subjected to investigation by council committee.

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47. Budget differences

Material differences between budget and actual amounts

The following are explanations for material variances between budgeted and actual amounts.

N1 - The restrictions that accompanied the coming of the Covid-19 pandemic impeded the municipality's efforts to effectively collect service charges.

N2 - The increase in outstanding debtors throughout the year rose as the municipality was unable to fully implement credit control policy due to Covid-19 pandemic induced legal restrictions.

N3 - The gain is mainly driven by the increase in the discount rate and also reduction of eligible employees.

N4 - The transfer of the landfill to Local Municipalities.

N5 - Additions of items of property, plant and equipment increased the depreciation charge in the current year.

N6 - Slow moving projects that were previously not impaired to recoverable value.

N7 - There was an increase in the discount rate.

N8 - Limited budget for contractual obligations and fleet management.

N9 - The increase in outstanding receivable throughout the year due to poor collection rates and inconsistent application of credit control policy due to capacity constraints and Covid-19 pandemic related restrictions.

N10 - Limited budget for contractual obligations and fleet management.

N11 - Limited budget for contractual obligations and fleet management.